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SUBJECT: GUIZHOU: POOR PROVINCE GROWS FASTER THAN NATIONAL AVERAGE;
INFRASTRUCTURE AND ENERGY INVESTMENT BRING HOPE FOR FUTURE

REF: CHENGDU 253

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¶1. (U) This cable contains sensitive but unclassified information - not for distribution on the Internet.

¶2. (SBU) Introduction and Summary: Guizhou, an ethnically diverse province 92 percent covered by mountains, remains one of China's poorest. In two recent meetings, officials from the Guizhou Economic and Information Department and the Guizhou Development and Reform Commission told Consul General that Guizhou had grown faster than the national average during the past decade, in part due to Beijing's "Great Western Development" strategy. The global financial crisis only moderately impacted Guizhou's economy, which is less dependent on foreign trade, while Beijing's economic stimulus is allowing Guizhou to update its highway and railway infrastructure as an engine for future growth, and escape route from poverty.

¶3. (SBU) Officials also hope to exploit Guizhou's energy sector to drive economic growth, but claim some national policies force Guizhou to subsidize the wealthy economies of the eastern provinces through, e.g. underpriced electricity. Guizhou has been boosting energy efficiency by closing old factories, and seeks to shift its industrial structure to higher--tech, lower polluting sectors; however, it recently received a poor score card from the central government in meeting these goals. End Introduction and Summary.

Financial Crisis Reaches Guizhou With a Lag

¶4. (SBU) The financial crisis was slow to reach Guizhou, with its 2008 provincial GDP growth of 10.2 percent exceeding the national average. GDP growth was a robust 15.9 percent in the first quarter of 2009, but the financial crisis finally left its mark in the second quarter as growth fell to about five percent. Guizhou's third quarter economy stabilized, with industrial

output rising to 10.38 billion RMB in August and 10.89 billion RMB in September. For the first three quarters of 2009, Guizhou's average GDP grew 9.9 percent, well above the national rate of 7.7 percent. Guizhou has minimal foreign trade, a mere 0.14 percent of China's total foreign trade, which explains the lagged and milder effects of the financial crisis. Instead, the financial crisis indirectly affected Guizhou as demand fell for its energy and raw materials in export--oriented coastal provinces.

Successes of the Great Western Development Strategy

15. (SBU) The GWD strategy was implemented in 2000 in an effort to close the gap between the wealthier eastern coastal provinces and the poorer inland western provinces, and has been important in allowing Guizhou's GDP growth rate to outpace the national rate nine of the last 10 years. As the policy approaches its ten--year anniversary, on January 1, 2010, a new strategy will be worked out for the coming decade. Due to massive government investment, Guizhou has made huge improvements to its outdated infrastructure. Ten years ago, Guizhou had no expressways, but by 2008 it had built 924 km. All counties have now been connected with paved highways and 78 percent of villages have roads. The policy has also emphasized ecological protection, improving water quality, and reforestation. Low--yield hillside farms have been shut down and reforested. The policy also seeks to attract foreign investment.

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And Failures: Are Western Provinces Subsidizing the East?

16. (SBU) Officials expressed frustration at national policies that have led to what they alleged to be subsidization by (poorer) western provinces of China's (richer) eastern coastal provinces. They cited three specific examples:

a. Energy Prices: Guizhou relies heavily on its coal industry, ranking fifth in China in total coal output. Due to government price controls, however, the price at which eastern provinces buy Guizhou coal is lower than the price Guizhou customers pay. According to a November 13 article in the "21st Economic Century Business Herald," Guizhou sells about 50 billion kWh of power to Guangdong every year. In 2008, the sale price to Guangdong was fixed at 0.333 RMB per kWh, yet Guangdong could sell to its customers at 0.731 RMB per kWh. Guizhou only receives about 1.28 billion RMB in tax revenue, while Guangdong receives a 14 billion RMB windfall profit. This also leads to social pressure, as farmers are relocated due to the "Western Power Transmitted to the East" policy. An official from the Guizhou Economic Commission has said, "Those farmers relocated due to power projects, they get nothing."

b. Cleaner Rivers: Guizhou and other western provinces have spent a large amount of resources to clean up rivers flowing from west to east. This has improved water quality in the eastern provinces, led to fewer floods, and boosted agricultural output, yet Guizhou receives no compensation for this benefit spillover.

c. Fresh Water Diversion: Every year Guizhou is forced to provide fresh water to coastal provinces to prevent sea water from flowing into the eastern rivers, such as the Pearl River in Guangdong. This forces Guizhou to store more water in the winter, reducing its agricultural output. Officials told CG that Guizhou receives nothing in return, save oral thanks from leaders of the coastal provinces.

GWDP and Post--Financial Crisis Stimulus Package

Lead to Boom in Highway and Railway Infrastructure Investment

17. (SBU) Guizhou is rich in natural resources and positioned to act as a transshipment point between parts of China and ASEAN countries, but had been unable to fully exploit these advantages largely due to poor transportation infrastructure. Both the GWDP and the post--financial crisis stimulus package have given Guizhou the financing needed to greatly expand badly--needed infrastructure projects. Despite comprising only three percent of China's population, Guizhou received four percent of stimulus funds.

18. (U) Guizhou is currently building 600 km of expressways, with plans to build another 1,150 km this year, for a total of 4,000 km by 2018. The Shanghai--Kunming highway will pass through Guizhou from east--west, while the Chongqing--Beihai highway will cut through Guizhou from north--south. By 2030, officials hope provincial capital Guiyang will be an eight--hour drive to the capitals of neighboring provinces. Guizhou is currently

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making huge investments in its railroads as well, which are crucial for shipping coal to the eastern provinces. Guizhou is currently building a Guiyang--Guangzhou line, which will cut transportation time by about one--third. They also plan to build a Guiyang--Chongqing line. The goal is to make Guizhou a major transportation hub for southwest China, ultimately linking to ASEAN countries via Guangxi and Yunnan provinces.

Importance of the Energy Sector

19. (SBU) Guizhou also hopes to leverage its rich energy resources, particularly coal and hydroelectric, to boost future growth:

a. Coal: With 58.7 billion tons of proven reserves, another 49.9 billion tons easily exploited, and several hundred billion tons deeper underground, Guizhou is heavily reliant on its coal industry. About 70 percent of Guizhou coal is high-quality, higher-priced anthracite. Guizhou has thus far been able to keep pace with the increasing coal demand, with a 68 percent increase in coal output expected for the 11th five-year plan ('06--'10) versus the previous five-year plan. Officials mentioned that they are interested in coal gasification and liquification, but at present it is too expensive to pursue.

b. Coalmine Gas: Guizhou hopes to use coalmine gas as an energy source. Coalmine gas is the surrounding gas, primarily methane, found in coal beds. Significant technological challenges remain, and rules restricting foreign investment make it difficult for foreign companies to acquire the necessary mining rights from the National Land Resource Bureau. (Coalmine gas also poses a great explosion risk to miners, but recent regulations have imposed stricter rules on mining companies to pump out coalmine gas before mining activity begins (reftel).)

c. Alternative Energy: Guizhou hopes to further develop the following alternative energies:

i) Hydropower: In 2008, Guizhou increased its total hydropower capacity by 700,000 kW. The total installed hydropower capacity stands at 7.7 million kW, over a quarter of the total electric capacity. Guizhou is estimated to have about 16.83 million kW of hydropower reserves, and they plan to vigorously develop them. Officials commented that, due to the mountainous topography of Guizhou, hydropower projects are easier to pursue than other provinces because fewer villagers must be displaced.

ii) Garbage Power: Zunyi city recently built a high-tech power plant which burns garbage to generate power. Guizhou is very interested in expanding the generation of electricity through garbage incineration, and claims to have studied the most effective technologies to minimize resulting emissions, e.g. of dioxins.

iii) Solar: Solar energy is still being assessed for potential usefulness in Guizhou, which receives relatively little sunshine (but whose use could still be expanded in areas such as heating water in households).

Energy Savings

10. (SBU) Concurrent with development of its energy resources, Guizhou also hopes to both boost its economy through greater energy efficiency, and address climate change/pollution. The 11th 5-year plan emphasizes efforts to reduce energy consumption, with a specific goal of a 20 percent reduction in energy consumption per unit of GDP. To realize this goal, the Guizhou Economic Commission established the Guizhou Energy Savings Office, and the Guizhou Environmental Protection Agency set up an Emissions Reduction Office. Officials outlined

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several energy-savings measures they are pursuing:

a. Enforcement of Energy Targets: All new projects must meet the energy savings standards. 105 enterprises are under the direct supervision of the provincial government to enforce these targets. All other enterprises are under the authority of city and county governments.

b. Closings of Non-Compliant Enterprises: Typically

non--compliant businesses are given a grace period to meet the new efficiency standards, or face closure. In certain instances, closed factories are given economic compensation, such as the Kaili and Zunyi thermal power plants, but in most cases they are not.

c. Adjusting Industrial Structures: Heavy industry such as coal, non--ferrous metals, and energy account for 70% of Guizhou's total industrial output. Officials hope to capitalize on the province's natural beauty and shift the economy towards tourism and other service sectors. They also hope to shift industry away from processing of raw materials to high--tech, lower energy intensity industries.

11. (U) Despite these efforts, China's Environmental Protection Ministry warned November 27 that Guizhou's emissions reductions in the first half of 2009 had lagged behind most other provinces.
BROWN